

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-18 Financial Audit**

Department of Defense Task Force for  
Business and Stability Operations'  
International Oil and Gas Sector Advisory  
Services Contract: Audit of Costs Incurred  
by Curtis, Mallet-Prevost, Colt & Mosle



DECEMBER  
2017

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On June 22, 2012, the Department of Defense's (DOD's) Task Force for Business and Stability Operations (TFBSO), through the Department of the Interior's National Business Center, awarded a 1-year, \$4 million contract to Curtis, Mallet-Prevost, Colt & Mosle (Curtis) to provide advisory services in the international oil and gas sector. The contract required Curtis to provide strategic and contractual analysis of processes and opportunities to support the development of tenders and contracts for the exploration and production of oil and gas in Afghanistan. The contract was modified seven times, increasing the total amount to \$5.9 million and extending the period of performance through July 21, 2013.

SIGAR's financial audit, performed by Williams, Adley & Company-DC (Williams Adley), reviewed \$5,940,055 in reimbursable costs incurred under the contract between June 22, 2012, and July 21, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies and material weaknesses in Curtis's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Curtis has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Curtis's Special Purpose Financial Statement (SPFS). See Williams Adley's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

December 2017

## Department of Defense Task Force for Business and Stability Operations' International Oil and Gas Sector Advisory Services Contract: Audit of Costs Incurred by Curtis, Mallet-Prevost, Colt & Mosle

SIGAR 18-18-FA

### WHAT THE AUDIT FOUND

Williams Adley identified three deficiencies in Curtis's internal controls and three instances of noncompliance with the terms and conditions of the contract. Specifically, Williams Adley identified unsupported payroll costs for 1.25 hours of labor charged by Curtis employees. Additionally, Williams Adley documented two instances of unsupported subcontractor costs: one for business class travel without prior approval and another for six overstated labor hours.

As a result of these internal control deficiencies and instances of noncompliance, Williams Adley identified \$3,854 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$881	\$881
Subcontract Travel	\$0	\$2,301	\$2,301
Subcontract Labor	\$0	\$672	\$672
<b>Totals</b>	<b>\$0</b>	<b>\$3,854</b>	<b>\$3,854</b>

Williams Adley requested prior audit reports and audit findings to evaluate the adequacy of any subsequent corrective actions. The auditors did not identify any findings or corrective actions in the reports that affected the current audit.

Williams Adley issued an unmodified opinion on Curtis's SPFS, finding that the statement presents fairly, in all material respects, the revenues earned, costs incurred, items directly procured by the U.S. government, and the balance under the contract.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible DOD program officer coordinate with the Department of Interior contracting officer to:

- 1. Determine the allowability of and recover, as appropriate, \$3,854 in questioned costs identified in the report.**
- 2. Advise Curtis to address the report's three internal control findings.**
- 3. Advise Curtis to address the report's three noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

December 19, 2017

The Honorable James Mattis  
Secretary of Defense

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson, Jr.  
Commander, U.S. Forces-Afghanistan and  
Commander, Resolute Support

We contracted with Williams, Adley & Company-DC (Williams Adley) to audit the costs incurred by Curtis, Mallet-Prevost, Colt & Mosle (Curtis) under a Task Force for Business and Stability Operations (TFBSO) contract to provide advisory services in the international oil and gas sector.<sup>1</sup> Williams Adley's audit covered \$5,940,055 in expenditures charged to the contract between June 22, 2012, and July 21, 2013. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible Department of Defense program officer coordinate with the Department of Interior contracting officer to:

- 1. Determine the allowability of and recover, as appropriate, \$3,854 in total questioned costs identified in the report.**
- 2. Advise Curtis to address the report's three internal control findings.**
- 3. Advise Curtis to address the report's three noncompliance findings.**

The results of Williams Adley's audit are in the attached report. We reviewed the report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Curtis's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Curtis's internal control or compliance with the contract, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-104)

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<sup>1</sup> The Department of the Interior's National Business Center, on behalf of TFBSO, awarded contract number D12PC00468 to Curtis to provide strategic and contractual analysis of processes and opportunities to support the development of tenders and contracts for the exploration and production of oil and gas in Afghanistan.

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

**Financial Audit of Costs Incurred**

by

**Curtis, Mallet-Prevost, Colt and Mosle, LLP**

Under

Contract Number D12PC00468

For the Period

**June 22, 2012 to July 21, 2013**

Submitted by



November 9, 2017

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Transmittal Letter

November 9, 2017

Managing Partner(s)  
Curtis, Mallet-Prevost, Colt & Mosle LLP  
New York, NY

Office of the Special Inspector General for Afghanistan Reconstruction  
Arlington, VA

Williams, Adley and Company-DC, LLP (referred to as “Williams Adley” or “we”) provide to you our draft report, which reflects results from the procedures we completed during our audit of the Curtis, Mallet-Prevost, Colt & Mosle LLP (hereinafter “Curtis”) contract under contract number D12PC00468 with the United States Department of Defense, Task Force for Business and Stability Operations funded program in Afghanistan.

On September 1, 2017, we provided SIGAR a draft report reflecting our audit procedures and results. Curtis received a copy of the report on October 11, 2017 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Curtis. Curtis’ responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Curtis contract.

Sincerely,

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn A. Hill, CPA  
Partner

## Summary

### Background

Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 ([P.L. 110-181](#)), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. The United States Department of Defense (DoD)-funded reconstruction activities covering advisory services in the international hydrocarbon sector that relate to reconstruction in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The DoD contracted Curtis, Mallet-Prevost, Colt & Mosle LLP (“Curtis”), for services related to reconstruction activities in Afghanistan. On June 22, 2012, the Department of the Interior’s National Business Center, on behalf of the DoD’s Task Force for Business and Stability Operations (TFBSO<sup>1</sup>), executed a time & materials contract, number D12PC00468, with Curtis to provide advisory services in the international hydrocarbons sector. The TFBSO was DoD’s principal vehicle for stimulating private sector growth and investment in Afghanistan’s economy. The TFBSO’s mandate was in the “development of economic opportunities, including private investment, industrial development, banking and financial system development, agriculture diversification and revitalization, and energy development” in Afghanistan. The original amount of the award was \$4,000,000 and the period of performance spanned 12 months from the date of award.

The scope of this contract was to provide strategic and contractual analysis of processes and opportunities to support the development of tenders and contracts for the exploration and production of hydrocarbons in Afghanistan, and other matters relating to the hydrocarbon industry in Afghanistan as requested by the DoD. The contract tasked Curtis with providing ongoing risk analysis of the legal framework and advising on structure and negotiation of tenders to reduce the risk and maximize benefits to the government and bidders. Legal, auditing, and other transparency and standards advisory support were requirements within the contract.

Founded in 1830, Curtis is an international law firm dedicated to counseling clients involved with challenging transnational transactions and complex multijurisdictional disputes. Curtis represents multinational companies, international financial institutions, governments and state-owned entities, family and other privately held businesses, entrepreneurs, and high net-worth individuals. Curtis has 18 offices in the United States, Latin America, Europe, the Middle East, Central Asia and East Asia.

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<sup>1</sup> TFBSO ceased operations on November 21, 2014

SIGAR contracted Williams, Adley and Company-DC, LLP (Williams Adley) to audit costs incurred under contract D12PC00468 and associated modifications awarded to Curtis. The period of performance for the Curtis contract for audit purposes included a base year of June 22, 2012 to July 21, 2013, with seven modifications issued through May 1, 2014, for a total funding of \$5.94 million.

The chart below shows the purpose of the contract and modifications, the change in funding totals and the period covered by the contract and modifications.

**Table 1: Curtis' Contract and Modifications**

Contract Number D12PC00468	Effective date	Amount Funded (Obligated)	Cumulative Award value	Purpose
Base Year	6/22/2012	4,000,000	4,000,000	Business Operation Support
Mod 1	7/20/2012	2,521,422	6,521,422	Incremental Funding <sup>2</sup>
Mod 2	9/21/2012	480,000	7,001,422	Incremental Funding <sup>3</sup>
Mod 3	1/10/2013	0	7,001,422	Changed COR
Mod 4	1/10/2013	25,673	7,027,095	Incremental Funding <sup>4</sup>
Mod 5	4/1/2013	0	7,027,095	Re-allocated \$75,000 from ODC to Travel
Mod 6	5/16/2013	0	7,027,095	Extended period of performance to 7/21/2013
Mod 7	5/1/2014	(1,087,040)	5,940,055	De-Obligation <sup>5</sup>
<b>TOTAL</b>		<b>5,940,055</b>	<b>5,940,055</b>	

## Objectives

The objectives of the audit are to:

1. Special Purpose Financial Statement - Express an opinion on whether the Special Purpose Financial Statement for the award presents fairly, in all material respects,

<sup>2</sup> The initial incremental funding was based on a request from Curtis to obligate the additional labor cost funds that were part of the original estimated budget. As it turns out, Curtis did not use all the obligated funds. The \$25,673 was to increase obligated funds for a subcontractor based on the original budgeted subcontract amount.

<sup>3</sup> Refer to footnote 2 above.

<sup>4</sup> Refer to footnote 2 above.

<sup>5</sup> Refer to footnote 2 above.

revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

2. Internal Controls- Evaluate and obtain a sufficient understanding of Curtis' internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Compliance - Perform tests to determine whether Curtis complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
4. Corrective Action on Prior Findings and Recommendations - Determine and report on whether Curtis has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

## Scope

In general, our scope of work includes the TFBSO time and materials contract number D12PC00468 and related modifications executed for costs incurred between June 22, 2012 and July 21, 2013, and related subsequent events<sup>6</sup>.

1. We performed a financial audit of incurred costs by Curtis under the award listed above to support the TFBSO. This audit involved work performed onsite at Curtis' New York, New York office.
2. We conducted sufficient testing to express an opinion on the engagement objectives. The major areas for review included:
  - i. Administrative Procedures and Fraud Risk Assessment
  - ii. Budget Management
  - iii. Cash Management
  - iv. Disbursements and Financial Reporting
  - v. Procurement and Inventory Management
3. We performed compliance testing including, but not limited to, activities allowed or disallowed; allowable costs under cost principles; cost determination for indirect costs; cash management; costs incurred eligibility; period of availability of Federal funds; procurement, suspension and debarment; program income; and reporting.

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<sup>6</sup> Entries into the general ledger are as of July 31, 2013 so testing included post performance period adjustments related to the contract performance period.

4. We reviewed transactions for the period from June 22, 2012 to July 21, 2013 and subsequent events and information that may have significant impact on the findings and questioned costs for the audit period.
5. We expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Our audit was conducted to form an opinion on the Special Purpose Financial Statement in accordance with the Special Purpose Financial Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Summary, and Management Response to Audit Findings are presented for informational and organizational content purposes, or additional analysis, and are not required parts of the Special Purpose Financial Statement. Such information has not been subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the TFBSO funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards (or "Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Special Purpose Financial Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of Curtis' internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Special Purpose Financial Statement.

To meet the audit objectives, we prepared an audit plan for the engagement. We reviewed applicable background materials, including contracts, auditee financial progress reports, DoD regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as applicable, to gain a thorough understanding of the control environment, the requirements of the contract, and any past findings and recommendations that may impact the audit. If prior audits indicated a need for corrective action to be taken by Curtis,

we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations. We requested and received supporting documentation for compliance evaluation of incurred costs and gained an understanding of the internal control related thereto. We assessed the control risk for sampling and testing purposes.

We used both statistical and judgmental sampling techniques to select direct labor, travel, subcontract and other direct cost samples to test for allowable incurred costs based on our risk assessment, and reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards, as applicable.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

## Summary of Results

We issued an unmodified opinion on Curtis' Special Purpose Financial Statement. We also reported on Curtis' internal control and compliance with contract terms, laws and regulations.

We identified three findings, which we considered immaterial weaknesses in internal control and noncompliance with the contract terms, laws, and regulations, which resulted in questioned costs in the amount of \$3,854. These findings pertain to costs incurred by Curtis for its labor or unsupported costs under Curtis' sub-contracts with the Marx Group and aXseum as indicated in the chart below.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, or are an unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which Curtis was unable to provide sufficient supporting documentation, including evidence of proper approvals, for us to determine the accuracy and allowability of the costs. All the costs we identified are categorized as unsupported costs.

Finding	Description	Ineligible Costs	Unsupported Costs	Total Questioned Cost
2017-01	Curtis unsupported payroll costs	\$0	\$881	\$881
2017-02	Marx Group business class travel	\$0	\$2,301	\$2,301
2017-03	aXseum unsupported labor hours	\$0	\$672	\$672
<b>Totals</b>			<b>\$3,854</b>	<b>\$3,854</b>

## Summary of Prior Audit Reports

We requested prior audit reports and corrective action recommendations to determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. We reviewed Curtis' Financial Statement audits performed by PWC for 2012 and 2013. For both the years, an unqualified opinion was issued. There were no findings and corrective action plans in the audited financial statements that impacted our audit, and which required reporting on the status of corrective actions.

## Summary of Management Comments on Audit Report

On October 24, 2017, Curtis provided its management response to the draft audit report findings and recommendations. Curtis agreed that the overbilled labor cost for finding 2017-01 occurred, but disagreed that it overbilled the government for labor costs because Curtis claimed it underbilled the government for other labor costs that exceeded the amount overbilled. Curtis disagreed with finding 2017-02 because management stated TFBSO directed Curtis to travel on specific dates after being advised that only business class travel was available on those dates. Curtis agreed with finding 2017-03 and commented that it failed to notice the inaccuracy in the subcontractor's billing statement. Management's full response is presented in Attachment B to this report.

## Attachments

The auditor's reports are supplemented by three attachments:

Attachment A includes the Schedule of Findings and Questioned Costs.

Attachment B contains Curtis' official management response to the draft report.

Attachment C contains the auditor's response to management comments.



## **Independent Auditor's Report on the Special Purpose Financial Statement**

Managing Partner(s)  
Curtis, Mallet-Prevost, Colt & Mosle, LLP  
New York, NY

### ***Report on the Special Purpose Financial Statement***

We have audited the Special Purpose Financial Statement of the Curtis, Mallet-Prevost, Colt & Mosle LLP (hereinafter "Curtis") contract number D12PC00468 for the period June 22, 2012 through July 21, 2013. The special purpose financial statement ("Statement") is the responsibility of Curtis' management.

### ***Management's Responsibility for the Special Purpose Financial Statement***

Management is responsible for the preparation and fair presentation of the Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Statement) that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as, evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenues earned, costs incurred, items directly procured by the U.S. Government, and balance under contract number D12PC00468 for the period June 22, 2012 through July 21, 2013 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the Statement.

### ***Other Reporting Required by GAGAS***

In accordance with GAGAS, we have also issued our reports, dated August 25, 2017, on our consideration of Curtis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with GAGAS in considering Curtis' internal control over financial reporting and compliance.

### ***Restriction on Use***

This report is intended for the information of Curtis, the Department of Defense, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company, LLP*

Washington, D.C.  
August 25, 2017

**Curtis, Mallet-Prevost, Colt & Mosle LLP**  
**Special Purpose Financial Statement for Costs Incurred**  
 Under contract number D12PC00468  
**For the Period of June 22, 2012 to July 21, 2013**

Revenues	Budget	Actual	Ineligible	Unsupported	Note <sup>7</sup>
D12PC00468	\$7,027,095	\$5,940,154			3
<b>Total Revenue</b>	<b>\$7,027,095</b>	<b>\$ 5,940,154</b>			
<b>Costs</b>					
Labor	\$6,727,095	\$5,727,447		\$1,553	4, A
Other Direct Costs (ODCs)	\$75,000	\$47,236			4
Travel	\$150,000	\$100,308		\$2,301	4, B
DBA Insurance	\$75,000	\$65,163			4
<b>Total Cost</b>	<b>\$7,027,095</b>	<b>\$5,940,154</b>		<b>\$3,854</b>	
<b><i>Outstanding Balance (deficit)</i></b>	<b>\$0</b>	<b>\$0</b>		<b>\$3,854</b>	

<sup>7</sup> The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

**Notes to the Special Purpose Financial Statement<sup>8</sup>**

For the Period June 22, 2012 to July 21, 2013

**NOTE 1 – STATUS AND OPERATION**

Curtis, Mallet-Prevost, Colt & Mosle LLP (“Curtis”) is an international law firm headquartered in New York that provides corporate, international, litigation and other legal services to multinational companies, international financial institutions, governments and state-owned entities, family and other privately held businesses, entrepreneurs, and high-net-worth individuals. Curtis has extensive experience advising governments and state-owned entities operating in the hydrocarbons and energy sectors, having overseen international competitive tender processes for governments and state-owned entities in Afghanistan and throughout Central Asia, the Middle East, North Africa, Europe and Latin America. Curtis’ advisory services extend across all areas of the hydrocarbon tender process, including strategic financial and commercial advice and risk analysis; tender design and implementation; analysis, preparation and negotiation of contracts, licenses, concessions and ancillary agreements; and institutional training and development.

On June 21, 2012, the Department of the Interior (“DOI”) awarded Curtis a Non-Severable Service, Time & Materials contract, Contract No. D12PC00468 (the “Contract”). The Contract period is from June 22, 2012 through July 21, 2013. The Contract provides for the provision of legal, auditing, and other transparency and standards advisory services to support the development of tenders and contracts for the exploration and production of hydrocarbons in Afghanistan, and other matters relating to the hydrocarbons industry of Afghanistan identified in the Performance Work Statement (“PWS”) or as the Department of Defense Task Force to Improve Business and Stability Operations (“TFBSO”) may specifically request.

To enhance its project management capabilities, Curtis engaged aXseum Solutions, LLC (“aXseum”), a specialist in international economic infrastructure development and management solutions. In turn, aXseum engaged The Marx Group LLC (“TMG”), an international transparency consultancy, to perform auditing and other transparency and standards advisory services.

The Contract provides for Curtis to bill its services and those of its subcontractors on a monthly basis for the labor categories and at the rates specified in Curtis’ revised price proposal dated June 14, 2012 (“Price Proposal”). Payment for other direct costs (“ODCs”) identified in Curtis’ Price Proposal, as well as reimbursement for Defense Base Act (“DBA”) insurance and travel costs, are subject to the limitations expressed in the Price Proposal and incorporated by reference into the Contract.

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<sup>8</sup>Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of Curtis’ management.

The original Contract has the following periods of performance, Not-to-Exceed (NTE) amounts and obligated amounts:

	<b>Period of Performance</b>	<b>NTE Amount</b>	<b>Obligated Amount</b>
<b>Base Period</b>	From 6/22/2012 through 6/21/2013	Labor: \$3,700,000.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00	Labor: \$3,700,000.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00
<b>Total</b>		\$4,000,000.00	\$4,000,000.00

On July 20, 2012, DOI issued Contract Modification No. 1 to increase the NTE and obligated amounts for the base period as follows:

	<b>Period of Performance</b>	<b>NTE Amount</b>	<b>Obligated Amount</b>
<b>Base Period</b>	From 6/22/2012 through 6/21/2013	Labor: \$6,221,422.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00	Labor: \$6,221,422.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00
<b>Total</b>		\$6,521,422.00	\$6,521,422.00

On September 21, 2012, DOI issued Contract Modification No. 2, revising the PWS to include additional auditing and transparency services related to the Balkhab tender. To reflect the increased level of effort, Contract Modification No. 2 increased the NTE and obligated amounts for the base period as follows:

	<b>Period of Performance</b>	<b>NTE Amount</b>	<b>Obligated Amount</b>
<b>Base Period</b>	From 6/22/2012 through 6/21/2013	Labor: \$6,701,422.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00	Labor: \$6,701,422.00 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00
<b>Total</b>		\$7,001,422.00	\$7,001,422.00

On October 2, 2012, DOI issued Contract Modification No. 3 to change the Contracting Officer's Representative.

On January 1, 2013, DOI issued Contract Modification No. 4 to increase the NTE and obligated amounts for the base period as follows.

	Period of Performance	NTE Amount	Obligated Amount
<b>Base Period</b>	From 6/22/2012 through 6/21/2013	Labor: \$6,727,094.65 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00	Labor: \$6,727,094.65 ODCs: \$150,000.00 DBA Insurance: \$75,000.00 Travel: \$75,000.00
<b>Total</b>		\$7,027,094.65	\$7,027,094.65

On April 1, 2013, DOI issued Contract Modification No. 5 to realign funding in the amount of \$75,000.00 from ODCs to Travel. As a result, the NTE and obligated amounts for the base period were revised as follows.

	Period of Performance	NTE Amount	Obligated Amount
<b>Base Period</b>	From 6/22/2012 through 6/21/2013	Labor: \$6,727,094.65 ODCs: \$75,000.00 DBA Insurance: \$75,000.00 Travel: \$150,000.00	Labor: \$6,727,094.65 ODCs: \$75,000.00 DBA Insurance: \$75,000.00 Travel: \$150,000.00
<b>Total</b>		\$7,027,094.65	\$7,027,094.65

On May 16, 2013, DOI issued Contract Modification No. 6 to extend the Period of Performance by 30 days at no additional cost to the government. As a result, the final NTE and obligated amounts for the base period were as follows.

	Period of Performance	NTE Amount	Obligated Amount
<b>Base Period</b>	From 6/22/2012 through 7/21/2013	Labor: \$6,727,094.65 ODCs: \$75,000.00 DBA Insurance: \$75,000.00 Travel: \$150,000.00	Labor: \$6,727,094.65 ODCs: \$75,000.00 DBA Insurance: \$75,000.00 Travel: \$150,000.00
<b>Total</b>		\$7,027,094.65	\$7,027,094.65

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

The Special Purpose Financial Statement (the "Statement") presents the revenues earned and the costs incurred by Curtis under Contract D12PC00468 for the period from June 22, 2012 to July 21, 2013. The Statement presents only a selected portion of Curtis' operations, and it is not intended to and does not present the financial position and cash flows of Curtis. The Statement has been prepared on the modified cash basis of accounting. Under this basis, revenues are generally recognized when received, and expenses are generally recognized when paid.

### (b) Foreign Currency Conversion Method

The Statement is denominated in U.S. Dollars. Transactions in foreign currencies were converted to U.S. Dollars at the exchange rate prevailing on the date the transaction occurred, with the accompanying conversion rate and source specified.

**(c) Questioned Costs**

Revenues include the following questioned costs: (i) 1.25 Curtis labor hours representing \$881 in labor costs; (ii) 6.00 aXseum labor hours representing \$672 in labor costs; and (iii) \$2,301 in travel costs, representing business class travel costs incurred by TMG personnel.

**NOTE 3 – REVENUE**

Budgeted revenues on the Statement represent total obligated Contract funding. Actual revenues on the Statement represent the total amounts received by Curtis in respect of invoices submitted to DOI in accordance with the terms and conditions of the Contract during the period of performance.

**(a) Labor**

As the Contract is a Non-Severable Service, Time & Materials contract, Curtis billed the labor hours of its personnel and consultants, as well as the labor hours of aXseum and TMG personnel, to DOI at the agreed upon hourly labor rates for the labor categories specified in Curtis' Price Proposal, net of the discounts offered therein.

**(b) ODCs, DBA Insurance and Travel**

All third-party costs incurred by Curtis and its subcontractors under the Contract, including DBA Insurance and travel, were billed to DOI at actual cost. Internal charges for specific ODC items listed in Curtis' Price Proposal were billed in accordance with the rates indicated in the Price Proposal.

**NOTE 4 – COST CATEGORIES**

The budget categories and the associated amounts reflect the line items provided in the Contract and any amendments thereto.

The costs incurred reported on the Schedule of Costs Incurred are presented in accordance with the Contract line items. Labor costs include hourly professional services fees of Curtis personnel and consultants, as well as the hourly professional service fees of aXseum and TMG personnel. Total disbursements to aXseum for professional services performed by aXseum and TMG personnel were \$24,061.76 and \$1,372,563.08, respectively. ODCs include internal charges for services at rates specified in Curtis' Pricing Proposal, as well as actual costs for services provided by third parties. Travel costs include travel costs of Curtis, aXseum and TMG personnel. Total disbursements to aXseum for travel costs incurred by aXseum and TMG personnel were \$616.70 and \$76,244.52, respectively. DBA insurance includes DBA insurance policy premiums for Curtis and aXseum. Total disbursements to aXseum for DBA insurance policy premiums paid in respect of aXseum and TMG personnel were \$35,963.00.

### Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>9</sup>

#### **Note A: Questioned Costs – Personnel**

Finding 2017-01 and Finding 2017-03 provide details concerning \$881 of incurred payroll costs and \$672 in associated consultant costs, respectively, that were questioned because support for the labor hours billed to the project was not provided.

#### **Note B: Questioned Costs – Travel expenses**

Finding 2017-02 provides detail for the \$2,301 in travel costs that were questioned because Curtis did not obtain the required prior approval for business class travel for its subcontractor's personnel.

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<sup>9</sup> Alphabetic notes to the questioned amounts presented on the special purpose financial statement were developed by and are the responsibility of the auditor.

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### **Independent Auditor's Report on Internal Control**

Managing Partner(s)  
Curtis, Mallet-Prevost, Colt & Mosle LLP  
New York, NY

We have audited the Special Purpose Financial Statement (the "Statement") of the Curtis, Mallet-Prevost, Colt & Mosle LLP ("Curtis") for the contract number D12PC00468 for the period June 22, 2012 through July 21, 2013, and have issued our report on it dated August 25, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

#### ***Internal Control over Financial Reporting***

The management of Curtis is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting described in Note 2 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of Curtis' Statement for the period June 22, 2012 through July 21, 2013, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not note matters involving internal control and its operation that we consider to be material weaknesses as defined above. However, we did identify three instances, described in the accompanying Summary of Findings and Questioned Costs as findings 2017-01, 2017-02 and 2017-03, which we consider to be deficiencies in internal control.

### ***Restriction on Use***

This report is intended for the information of Curtis, the Department of Defense, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company, LLP*

Washington, D.C.  
August 25, 2017



### Independent Auditor's Report on Compliance

Managing Partner(s)  
Curtis, Mallet-Prevost, Colt & Mosle, LLP  
New York, NY

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Curtis, Mallet-Prevost, Colt & Mosle, LLP for the contract number D12PC00468 for the period of June 22, 2012 through July 21, 2013, and have issued our report on it dated August 25, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

#### ***Compliance and Other Matters***

Compliance with agreement terms and laws and regulations applicable to Curtis is the responsibility of Curtis' management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of Curtis' compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our tests did not disclose instances of noncompliance that are required to be reported here under GAGAS. However, we identified three instances of noncompliance that are not material to the Statement, which are required to be reported in accordance with the contract with SIGAR. These instances of noncompliance are

described in the accompanying Schedule of Findings and Questioned Costs as findings 2017-01, 2017-02 and 2017-03.

***Restriction on Use***

This report is intended solely for the information of Curtis, the Department of Defense, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company, LLP*

Washington, D.C.  
August 25, 2017

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## Attachment A - Schedule of Findings and Questioned Costs

### Finding 2017-01: Unsupported Payroll Costs

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** We tested payroll samples for 10 of 24 employees for payroll costs incurred on a bi-weekly payroll cycle between June 22, 2012 and July 21, 2013. During this testing, a comparison of data in Curtis' timekeeping system and invoices submitted shows that the billing for 2 employees was overstated by 1.25 hours. This equated to an overstatement of payroll costs by \$881.

**Criteria:** Per 48 CFR, Part 31, subsection 201-2(d), A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

**Cause:** We determined that Curtis did not implement fully the monitoring process for comparing the hours on the TFBSO contract invoices to its source data to ensure the invoiced amounts were correct. Curtis stated that the supervisory attorney or department manager reviewed the invoices. However, there was no evidence that the supervisory attorney or department manager reviewed the invoices along with the DTE Axiom level of effort reports used to create the billing statements. Thus, in the instance we reported, the billings were reviewed and accepted as accurate without confirming the level of effort for each employee in the billing statement matched the time entry data captured in Curtis' DTE Axiom system.

**Effect:** Due to overstated hours on the invoices, labor costs of \$881 were overbilled to the government, which are unsupported questioned costs.

**Recommendation:** We recommend that Curtis:

1. Ensures the review process requires supervisory attorney or department manager comparison of invoices to the DTE Axiom system's source data of billable personnel hours for each employee's hours included in the billing statement before submitting invoices to the government.
2. Provide DoD with adequate documentation to support the payroll charges we questioned as unsupported or reimburse DoD for the unsupported payroll costs of \$881.

**Finding 2017-02: Unsupported Subcontractor Travel Costs**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** We tested \$1,576,631 of \$1,689,144 in other direct costs between June 22, 2012 and July 21, 2013. We noted during testing of travel expenses that in one instance two consultants from the Marx Group, a subcontractor, traveled using business class without prior DoD approval. The difference between the business class and the economy class was \$2,301 based on the difference between the travel documentation for the approved economy itineraries and the airline tickets purchased.

**Criteria:** Per 32 CFR, Subpart B, section 34.17, allowability of costs shall be determined in accordance with the cost principles applicable to the type of entity incurring the costs, as follows: (a) For-profit organizations. Allowability of costs incurred by for-profit organizations that are recipients of prime awards from DoD Components, and those that are subrecipients under prime awards to other organizations, is to be determined in accordance with: (1) The for-profit cost principles in 48 CFR parts 31 and 231 (in the Federal Acquisition Regulation, or FAR, and the Defense Federal Acquisition Regulation Supplement, or DFARS, respectively). (2) The supplemental information on allowability of audit costs, in § 34.16(f).

Per 48 CFR, Part 31, subsection 201-2(d), A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Modification 1 of the contract between Curtis and DoD includes a requirement under Section 14, Travel, which states, "Reimbursement of travel expenses are limited to those expenses incurred by the contractor's employees in a COR approved travel status only. All travel, including local travel, if authorized, shall be approved by the COR prior to commencement of travel. When requesting approval by the COR, the contractor shall submit the following information to the COR in writing:

- Name(s) of traveler(s)
- Dates of travel
- Purpose of travel
- Travel itinerary (include all locations where duties will be performed by the traveler or there will be overnight stays)
- Whether a rental car will be required
- Identify any special requirements with justification of the traveler (e.g. requirement for a mid-size rental car; medical justification for other than economy class airfare)

**Cause:** The travel itineraries were initially approved by the COR, however, the itineraries included only economy travel. Curtis assumed that because the travel was approved, no further approvals were needed. We determined that Curtis neglected to request written approval of the business class travel at the time it learned the individuals would not be flying economy because Curtis misinterpreted the specific approval requirements for business class travel as stated in its contract.

**Effect:** Because Curtis did not obtain written approval for the business class travel, the government was overbilled and invoices were paid for unsupported costs, which we calculated as \$2,301 in questioned costs as follows:

Invoice Number	Business Class ticket cost for 2 persons	Economy fare ticket cost for 2 persons per approved itinerary	Questioned Cost
763_E	\$5,376.60	\$3,076.00	\$2,300.60

**Recommendation:** We recommend that Curtis:

1. Ensure written approvals for business class travel are obtained from the awarding agency and seek written clarification regarding travel approvals to avoid misinterpretation of the contractual requirements.
2. Provide DoD with adequate documentation to support the travel charges we questioned as unsupported or reimburse DoD for the unsupported subcontractor costs of \$2,301.

**Finding 2017-03: Unsupported Subcontractor Labor Costs**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** We tested 49 transactions for cost support and eligibility, which totaled \$1,576,631 out of the \$1,689,144 in other direct costs between June 22, 2012 and July 21, 2013. We noted that the subcontractor's (aXseum) invoice for the month of August 2012 included 6 overstated labor hours that amounted to \$672 in overbilling for one aXseum employee based on comparison of these hours with the time and attendance records used to support the invoice.

**Criteria:** Per 32 CFR, Subpart B, section 34.17, Allowability of costs shall be determined in accordance with the cost principles applicable to the type of entity incurring the costs, as follows: (a) For-profit organizations. Allowability of costs incurred by for-profit organizations that are recipients of prime awards from DOD Components, and those that are subrecipients under prime awards to other organizations, is to be determined in accordance with: (1) The for-profit cost principles in 48 CFR parts 31 and 231 (in the Federal Acquisition Regulation, or FAR, and the Defense Federal Acquisition Regulation Supplement, or DFARS, respectively). (2) The supplemental information on allowability of audit costs, in § 34.16(f).

Per 48 CFR, Part 31, subsection 201-2(d), A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Under paragraph 9(3) of the Performance Work Statement, entitled Performance Requirements Summary, the contractor's performance objective includes providing accurate monthly billing statements.

**Cause:** aXseum manually prepared its invoice summary to include the subtotal of hours for employees who charged hours to the Curtis contract. Curtis relied solely on aXseum's internal review process to determine the accuracy of the manually prepared invoice summary, which included a sign-off by aXseum's invoice preparer and reviewer on the invoice summary, instead of independently confirming billing information was transferred to the invoice summary correctly.

**Effect:** Because the review of subcontractor documentation was not adequately performed, the government was overbilled and invoices were paid for unsupported costs, which we determined as \$672 in questioned costs.

**Recommendation:** We recommend that Curtis:

1. Independently review subcontractor invoices to ensure that labor charges are correctly transferred to the invoice summary and totals accurately reflect reimbursable costs based on the supporting documentation.
2. Provide DoD with adequate documentation to support the labor charges we questioned as unsupported or reimburse DoD for the unsupported subcontractor costs of \$672.

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**Attachment B –Management’s Response to Audit Findings**

Curtis, Mallet-Prevost, Colt &amp; Mosle LLP

October 24, 2017

**VIA EMAIL**

Williams, Adley & Company-DC, LLP  
1030 15th Street, NW, Suite 350 West  
Washington, DC 20005  
Attn: Ms. Jocelyn Hill

Dear Ms. Hill:

On October 11, 2017, we received a copy of the draft audit report prepared by Williams, Adley and Company-DC, LLP (“**Williams Adley**”) reflecting the results from the procedures completed during Williams Adley’s audit of Curtis, Mallet-Prevost, Colt & Mosle LLP (“**Curtis**”) under contract number D12PC00468. We thank Williams Adley for the professionalism with which it conducted the audit and for sharing with us the detailed findings included within its draft report. Following are our responses to those findings.

*Finding 2017-01: Unsupported Payroll Costs*

We agree with the auditor’s finding that the labor invoices submitted by Curtis under contract number D12PC00468 included labor hours for two attorneys which exceeded the hours recorded by those attorneys in the firm’s billing system by an aggregate total of 1.25 hours. The inclusion of such hours was the result of human error in the preparation of the invoices, which were prepared separately by the firm’s administrative professionals following supervisory attorney review of the relevant billing records. To avoid similar inaccuracies in the future, we have revised our procedures to eliminate the manual preparation of invoices and require that all invoices be generated directly from the billing records reviewed and approved by supervisory attorneys.

Although we accept the auditor’s finding that the additional 1.25 labor hours referenced above resulted in \$881 in additional payroll costs to the government, we note that in the aggregate Curtis’ labor invoices included fewer labor hours than were actually recorded by its attorneys under contract number D12PC00468. For example, 5 labor hours

recorded in July 2013 by a senior Curtis attorney for work in support of contract number D12PC00468 were inadvertently excluded from the firm's July 2013 labor invoice to the government, resulting in a savings to the government of \$3,525 in unbilled time. Because the value of the labor hours Curtis excluded from its invoices exceeds the value of the additional 1.25 labor hours erroneously invoiced to the government, we respectfully disagree with the report's finding insofar as it suggests that Curtis has overstated the total amount of its payroll costs to the government. In addition, although we regret the inadvertent human error in this instance, we note that the sum involved is *de minimis* in the context of \$5,727,447.00 accrued for labor costs under contract number D12PC00468.

*Finding 2017-02: Unsupported Subcontractor Travel Costs*

We agree in principle with the auditor's finding that on one occasion Curtis did not obtain prior written approval from the TFBSO for business class travel by its subcontractors. We note, however, that the travel was on an expedited basis at the direct request of the TFBSO, which was advised by the subcontractor of the lack of available economy class flights. The justification for the business class travel, including the absence of available economy flights during the period in question, was explained in the materials which accompanied the travel invoice submitted by Curtis to the government. Further, we note that upon review of the invoice and accompanying justification for business class travel, the government determined that payment of the full cost of travel was appropriate under the circumstances. Given that (i) the travel costs were incurred at the direct request of the TFBSO after having been advised by the subcontractor that travel on the required dates was only available at business class rates and (ii) the government subsequently authorized payment of the travel costs based on the documentation and related explanations that accompanied the travel invoice submitted by Curtis, we do not believe it is accurate to characterize the additional \$2,300.60 in travel costs attributable to the subcontractor's business class travel as "unsupported."

*Finding 2017-03: Unsupported Subcontractor Labor Costs*

We agree with the auditor's finding that our subcontractor's invoice for the month of August 2012 included six overstated labor hours amounting to an additional \$672 in payroll costs to the government. The inclusion of such hours was the result of human error insofar as Curtis failed to identify a billing inaccuracy in the subcontractor's invoice summary. To avoid similar inaccuracies in the future, we have revised our procedures to require that all subcontractor invoices and supporting documentation be independently reviewed and approved by supervisory attorneys to ensure that the summary amounts indicated in the invoice totals accurately reflect the reimbursable costs reflected in the subcontractor's supporting documentation.

Once again, we thank Williams Adley for the opportunity to respond to the findings included in its draft audit report. If you require additional information regarding our responses, please contact Matias Vega at [mvega@curtis.com](mailto:mvega@curtis.com) or (212) 696 6929.

/s/ Matias A. Vega

Date 24-10-17

**MATIAS A. VEGA**  
**MANAGING PARTNER**  
**Curtis, Mallet-Prevost, Colt & Mosle LLP**

### Attachment C – Auditor’s Response to Management Comments

In consideration of the views presented by Curtis’s management, we present the following rebuttal or clarification to certain matters. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of this report in their evaluation of the findings and recommendations included herein. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings, and where management agrees with the findings presented, we have not provided a response.

#### **Finding 2017-01: Unsupported Payroll Costs**

While Curtis accepts the calculations for the overcharged labor hours based on human error, Curtis contends it under-billed the government for labor hours in other instances that exceeded the amount for the overbilled hours we reported. Therefore, Curtis disagrees that it overstated the total amount of its payroll costs to the government. Further, Curtis opines that the sum involved is *de minimis* in the context of the \$5,727,447 in accrued labor costs under the contract.

We agree the overcharged labor hours were made in error, however, we cannot substitute Curtis’s claim for underbilling as an offset to the overbilled charges as Curtis is only entitled to reimbursement for each charge billed to the government that is properly supported. The labor costs we questioned were not properly supported, and therefore, are not allowable costs. Thus, we conclude that the finding and recommendations should remain as stated.

#### **Finding 2017-02: Unsupported Subcontract Travel Costs**

In its response, Curtis states the travel was incurred at the direction of TFBSO after Curtis advised TFBSO that only business class airfare was available on the requested dates, and that the government approved payment based on the explanations and documentation provided. Curtis believes the costs are allowable based on the described circumstances.

While we agree the circumstances, as described by Curtis, would support the allowability of the business class travel, the evidence Curtis provided only supported TFBSO written approval for economy class travel. Government authorization of payment for the travel invoice associated with the business class travel is not evidence it approved such travel as the government may have paid the invoice due to human error. Therefore, the finding and recommendations remain as presented.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

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- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: [sigar.pentagon.ccr.mbx.public-affairs@mail.mil](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202